

AGENDA: December 7, 2004

7.2

CATEGORY: Unfinished Business

DEPT.: City Manager

TITLE: Child-Care Center Implementation Plan

RECOMMENDATION

Determine whether or not to pursue a project to create a child-care center at Rengstorff Park. If the Council authorizes such a center:

1. Adopt A RESOLUTION OF THE CITY OF MOUNTAIN VIEW AUTHORIZING STAFF TO PURSUE A \$2.8 MILLION PROGRAM-RELATED INVESTMENT FROM THE DAVID AND LUCILE PACKARD FOUNDATION FOR CONSTRUCTION OF A CHILD-CARE CENTER AT RENGSTORFF PARK, to be read in title only, further reading waived, or develop an alternative funding approach using exclusively City resources; and
2. Authorize the City Manager to negotiate a Letter of Intent with Children's Creative Learning Centers, as operator of the center, for subsequent approval by the City Council.

FISCAL IMPACT

The David and Lucile Packard Foundation (Packard) Program-Related Investment (PRI) of \$2.8 million is a financing mechanism calculated over a 15-year payback term at a 1 percent interest rate with full repayment due in seven years. If the attached resolution (Attachment 1) is adopted and the Packard Foundation extends the PRI to the City and the Council approves the terms of the PRI, then the City would be responsible for annual payments to Packard of approximately \$202,000 and would be responsible for the remaining balance of \$1,545,000 after the seventh year.

Children's Creative Learning Centers (CCLC), the operator with which staff has been in discussions, has indicated their commitment to net income available for lease payments sufficient to cover the \$202,000 the City would owe Packard annually for the first seven years. However, at this time, the specific terms of this commitment have not been negotiated between CCLC and the City.

Although "turnkey" or "design/build" construction approaches were preliminarily evaluated for this project, staff recommends that the center be constructed by the City as a Public Work's capital improvement project. This approach would be the most appropriate due to its public

funding and City ownership and would allow the greatest assurances of constructing a high-quality and appropriately designed child-care center with flexibility for future additional uses. Design would be carried out in close cooperation with CCLC. Therefore, staff estimates that design and construction of the center will cost \$3.1 million to \$3.5 million.

Staff has developed several funding alternatives for Council consideration to address the seventh year balloon payment to Packard of \$1,545,000, plus the additional \$300,000 to \$700,000 in construction funding that may be necessary for the City to design and construct the center. These alternatives are analyzed in the "Background and Analysis" section of this report.

While there are some financial unknowns related to the construction and operation of the child-care center, the fundamental fiscal impact is that the City would owe Packard \$2.8 million at 1 percent interest within seven years, plus \$300,000 to \$700,000 in additional City funding for construction. If the child-care center is operated successfully for approximately 20 years, this debt (not including lost interest earnings on the \$1,845,000 to \$2,245,000 of City funding) would be entirely offset by the operator's lease payments. After the seventh year payoff to Packard, lease revenue could be used for reimbursement of City funding or other City purposes as determined by the Council.

Details related to the Packard PRI and financial unknowns related to the construction and operation of the child-care center are provided in the "Background and Analysis" section of this report.

BACKGROUND AND ANALYSIS

On June 15, 2004, a study session was held with the City Council to discuss the status of the child-care center implementation plan. Staff presented information about discussions with the Packard Foundation on the potential for a low-interest loan to the City for construction of the child-care center in addition to presenting information about best local practices in child-care provider/center support. At that time, staff had not yet delved into transaction details with Packard. As explained below, the transaction with Packard would be a Program-Related Investment (PRI) in the form of a lease. Council direction to staff at this study session (minutes provided as Attachment 2) was to return to a future regular City Council meeting with additional analysis of child-care assistance options, focusing on cost/benefit analysis of different programs, and to include a request to consider an application for the Packard financing option.

Attachment 3 is the June 15, 2004 Council study session report which includes details regarding the Packard option. Attachment 4 is a memo from the Youth Resources Manager summarizing the results of staff's additional research in response to Council's request.

Analysis of Packard PRI

In order to accept the Packard PRI, a financial structure similar to lease financing would be essential. The structure of this transaction would entail the City leasing the Rengstorff Park property to the City of Mountain View Financing Authority (Authority) and then the City leasing back the property with improvements (the child-care center). Lease payments to the Authority would equal lease rent received by the operator which, in turn, would equal the \$202,000 owed to Packard annually. The Authority would assign these payments to Packard through an assignment agreement between the City and the Authority. The lease document for the leaseback would contain security guarantees for Packard and would make the City a guarantor of the annual payments due to Packard whether or not the operator makes full payment to the City. Payments to Packard must be appropriated in the annual budget.

As stated in the "Fiscal Impact" section of this report, CCLC has indicated their commitment to net income available for lease payments sufficient to cover the \$202,000 the City would owe Packard annually for the first seven years, but the specific terms of this commitment have not been negotiated between CCLC and the City. These operator lease payments potentially finance only approximately one-half of the \$2.8 million Packard PRI, leaving a remaining \$1.545 million owed to Packard after the seventh year. In addition, the City's construction estimate for the center is \$3.1 million to \$3.5 million. Therefore, \$300,000 to \$700,000 in City funding is necessary in addition to the \$2.8 million from Packard.

Staff has developed several funding alternatives for Council consideration to address the seventh year balloon payment, plus the additional \$300,000 to \$700,000 in up-front City funding:

1. Limit the Packard PRI to the amount that can be amortized over seven years by operator lease payments, requiring City funding up front of up to \$2,245,000 in construction costs. Compared to other alternatives below, the City would lose interest earnings on the City funds used for construction in place of the additional \$1,545,000 that could have been financed by Packard during the first seven years.
2. Identify the source and reserve funds needed for payment to Packard in seven years in addition to identifying the source and committing City funds for the additional \$300,000 to \$700,000 required for construction. This alternative would allow interest earnings to be retained on the reserved funds.
3. Identify the source of funds needed for payment to Packard in seven years but pay this amount to Packard annually, thus fully amortizing the Packard funding in seven years. The \$300,000 to \$700,000 of additional City funding for construction would still need to be identified and committed.

4. Similar to Alternative 3 above, identify the source of funds but make the annual payment to a sinking fund annually for payment to Packard in seven years. This alternative also would allow interest earnings to be retained. The \$300,000 to \$700,000 of additional City funding for construction would still need to be identified and committed.

If Council decides to pursue a project to create a child-care center at Rengstorff Park, the Council may wish to consider, as an alternative to the Packard PRI, a funding approach that uses exclusively City resources. This approach would require identification and commitment of up to \$3.5 million for design and construction of the center.

Beginning in Year 8, CCLC's projected net revenue available for rent would be limited to approximately \$179,000 annually because their capacity to meet the required rent for the first seven years is dependent on their ability to achieve a 6 percent profit beginning in Year 8. However, this detail has not been negotiated between the City and CCLC. Therefore, following payoff of the Packard PRI, Year 8 lease revenue could go to the General Fund, be used to reimburse the source of City funds used to make the Packard PRI seventh year balloon payment or initial construction funding or be used for other City purposes as determined by the Council.

CCLC's proposal is for a center that would have capacity for 104 children, including 8 infant slots. This capacity, accounting for part-time slots, normal turnover (estimate of 7 percent of attendance), 20 prekindergarten slots opening per year and other attrition factors, would serve approximately 35 new children per year or approximately 1,100 different children over a 30-year operation. The center would also be operated according to the National Association for the Education of Young Children's high-quality standards and serve a combination of low-income, middle-income and market-rate tuition-level families.

New information since the June study session is that CCLC has agreed to amend their proposal to provide for an initial seven-year term for operation of the center to match the Packard PRI term. Also, similar to programs they operate in Sunnyvale and Redwood City, CCLC raised the idea that the design of the center could include a family resource room to be used by the community to gather and disseminate information about family-care providers and local and regional programs that support the creation and expansion of family-care programs if so desired by the City Council. Furthermore, since the child-care center will be a facility owned by the City and in proximity to the Community Center and the Senior Center, it could potentially also be used for other community events, classes and activities during evening or on weekends in concert with the Community Center and Senior Center.

Further analysis of CCLC's terms, Packard's terms, the construction estimate and pros, cons and risks related to the Packard PRI is provided on Pages 3 through 7 of the June 15, 2004 study session report (Attachment 3).

Summary of Child-Care Support Services – Cost/Benefit Analysis

At the June 15, 2004 Council study session, the Council directed staff to return with a cost/benefit analysis of child-care support services. As described in Attachment 4, despite staff's thorough research efforts into the link between center and family-care provider support programs and actual number of increased child-care slots through interviews with local City child-care staff and review of literature, the quantitative data results are limited. Historically, this type of cost/benefit analysis has not been applied to these programs or many new programs are in their infancy and their results have not yet been quantified.

However, staff's research of five local cities and more than 16 California and other U.S. cities, experts and published resources did result in substantial information relevant to the Council's request for cost/benefit information. The conclusions from this research can be summarized as follows:

Rather than relying on "cost-benefit analyses," most cities surveyed have determined the value of particular child-care support services based on recommendations from national, municipal and child-advocacy organizations, the advice of local child-care task forces and the expertise of their child-care coordinators. The services, programs and policies of the cities surveyed are implemented primarily in three ways:

- The creation of a child-care coordinator/manager position which is responsible for the implementation and supervision of services.
- The subcontracting of service provision to local nonprofits or private consultants.
- The absorption of tasks by existing staff positions.

These services and programs are then paid for via general fund dollars, specific fees or, in states other than California, the levying of other municipal or county taxes.

The services, programs and policies that the majority of surveyed cities and municipal and child-advocacy agencies recommend are listed in Attachment 4.

ALTERNATIVES

1. Put the child-care center implementation plan on hold at this time: Due to the financial requirements for initial City construction funding and the seventh year bubble payment of the Packard PRI option, Council might wish to discuss whether this project should be put on hold at this time.
2. Direct staff to develop a financial plan for the construction of the center using City financial resources exclusively.
3. Consider alternative programs to support the creation, expansion and improved quality of child care with an emphasis on family child-care providers. After reviewing and discussing the alternative child-care support services described in Attachment 4, Council might wish to identify one or more specific practices for further evaluation by staff to address staff resources, funding options, implementation options and other program details. Alternatively, Council might wish to refer consideration of alternative programs to Council goal-setting for 2005.

CONCLUSION

Pursuant to Council direction from a June 2004 study session, staff has provided Council with additional analysis of child-care assistance options and a request to consider an application for the Packard PRI option. If the resolution is adopted, staff will prepare the necessary documents for submittal to Packard for their board's consideration at their March 2005 meeting. In addition, staff would begin to negotiate with CCLC, as operator of the center, as may be needed to support the City's PRI application. If Packard were to award the City this PRI, staff would work with Packard to develop final PRI terms and conditions which would be subject to further Council review and approval.

PUBLIC NOTICING – Agenda posting.

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Attachments: 1. Resolution
2. June 15, 2004 Study Session Minutes
3. June 15, 2004 Council Study Session Report
4. Child-Care Support Services – Cost/Benefit Analysis

cc: Ms. Carla Dartis, David and Lucile Packard Foundation

Mr. Wei-Min Wong, David and Lucile Packard Foundation

Mr. William J. Donahoe, Bright Horizons Family Solutions

Ms. Fran Durekas, Children's Creative Learning Centers

Ms. Chandra Alexandre, Knowledge Learning Corporation

Mr. Ken Jaffe, International Child Resource Institute

Ms. Jeannie Richter, Former Chairperson, Mountain View-Los Altos Child-Care Task Force

PWD, APWD, AFASD, CPM, SDZA, PFA – Niederhofer

CITY OF MOUNTAIN VIEW
RESOLUTION NO.
SERIES 2004

A RESOLUTION OF THE CITY OF MOUNTAIN VIEW AUTHORIZING STAFF TO
PURSUE A \$2.8 MILLION PROGRAM-RELATED INVESTMENT FROM THE
DAVID AND LUCILE PACKARD FOUNDATION FOR CONSTRUCTION OF A
CHILD-CARE CENTER AT RENGSTORFF PARK

WHEREAS, statistics on child-care supply in Mountain View show a substantial demand for increased child-care capacity to serve a need in the community; and

WHEREAS, these statistics also show a substantial need for infant child care and affordable child care; and

WHEREAS, the City of Mountain View began studying in 2000 the feasibility of locating a child-care center at Rengstorff Park and adopted child-care center program parameters that include infant care and high-quality standards for the center; and

WHEREAS, the City of Mountain View initiated a funding search and child-care center developer/operator search in August 2002 and began more detailed discussions with the leading potential operator in fall 2003; and

WHEREAS, the City of Mountain View began discussions in early 2004 with the David and Lucile Packard Foundation program officers regarding potential construction funding scenarios;

NOW THEREFORE, BE IT RESOLVED by the City Council of the City of Mountain View that the City Manager is hereby authorized to pursue funding options, including the filing of an application for a program-related investment from the David and Lucile Packard Foundation for \$2.8 million for construction of a child-care center at the Rengstorff Park location, subject to further Council review and approval of the final program-related investment terms and conditions.

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